

Financial Policy #10: Debt Management

Effective Date: August 25, 2016 Resolution No. 513

Replaces and Cancels:

References: RCW 35A.40, RCW 35.37, RCW 39.40, RCW 39.46, RCW 39.52, RCW 39.56 and RCW 43.80; Financial Policy #01: Financial Management

PURPOSE

The Debt Policy for the City of Ridgefield sets forth guidelines for the issuance and management of all financings of the City. Adherence to the policy is essential to ensure that the City maintains a sound debt position and protects the credit quality of its obligations while providing flexibility and preserving financial stability.

USES OF DEBT

The City of Ridgefield uses debt as a mechanism to equalize the costs of needed capital improvements for the benefit of both present and future citizens.

The City of Ridgefield uses debt as a mechanism to reduce the immediate costs of substantial public improvements.

The City of Ridgefield will not use long-term debt to support current operations.

Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.

Non-capital furnishings, supplies and personnel will not be financed from bond proceeds.

Interest, operating, and/or maintenance expenses will be capitalized only for enterprise activities and will be strictly limited to those expenses incurred prior to actual operation of the facilities.

AUTHORITY – DEBT LIMITS

Legal Limits:

1. The general obligation debt of the City of Ridgefield will not exceed an aggregated total of 2.5% of the assessed valuation of the taxable property within the City. The City may issue additional debt for utilities, 2.5% and open space and park facilities, 2.5% not to exceed a total of 7.5% of the assessed valuation of the taxable property within the City. RCW 39.36.020
2. The following individual percentages shall not be exceeded in any specific debt category:
 - a. General debt – not to exceed an aggregated total of 2.5% of assessed valuation
 - i. Non-Voted up to 1.5% Limited Tax General Obligation (LTGO) Bonds
 - ii. Voted up to 2.5% Unlimited Tax General Obligation (UTGO) Bonds
 - b. Utility Debt – 2.5% of assessed valuation
 - c. Open Space and Park Facilities – 2.5% of assessed valuation

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Public Policy Limits:

1. The City will establish and implement a comprehensive multi-year Capital Improvement Program (CIP).
2. Financial analysis of funding sources will be conducted for all proposed capital improvement projects.
3. Debt will be issued in accordance with the CIP as necessary.
4. Where borrowing is recommended, the source of funds to cover debt service requirements must be identified.
5. The City, as determined by the City Council, may consider using long term debt toward public improvements, which have an identified public benefit to the City, associated with economic development to the extent that new revenues from the project, in excess of those identified by the City Council for other City purposes, can be agreed upon to support the debt service.

Financial Limits:

1. The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the operating budget.
2. The City will conduct a debt affordability analysis to evaluate the City's ability to support debt. The analysis will review available resources for the amount of debt the City can initiate each year and project the effects of that financing through six years of the CIP.

ALLOWABLE TYPES OF DEBT

1. **Short Term Obligations:** Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of the funds will not impact the fund's current operations. All interfund loans will be subject to Council approval, will bear interest based upon prevailing rates and have terms consistent with state guidelines for interfund loans.
2. **Assessment/LID Bonds:** Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity. Local Improvement District (LID) Bonds represent debt that is repaid by the property owners who benefited from the capital improvement through annual assessments paid to the

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City. LID's are formed by the City Council after a majority of property owners agree to the assessment.

3. Limited Tax General Obligation Bonds: General Obligation debt is backed by the full faith and credit of the City and is payable from General Fund revenues and taxes collected by the City. Limited Tax General Obligation (LTGO) Bonds can be issued with the approval of the City Council and will only be issued if:
 - a. A project requires funding not available from alternative sources.
 - b. Matching fund monies are available which may be lost if not applied for in a timely manner,
 - c. Emergency conditions exist.
4. Unlimited Tax General Obligation Bonds: Unlimited Tax General Obligation (UTGO) Bonds are payable from excess tax levies and are subject to voter approval by 60% of the voters.
5. Revenue Bonds: Revenue bonds are used to finance construction or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Improvement Program and are generally payable from the enterprise. No taxing power or general fund pledge is provided as security. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter approval required.
6. Leases: Lease purchase or financing contracts are payment obligations that represent principal and interest components which are general obligations of the City.
7. Other Loan Programs:
 - a. Public Works Trust Fund Loans are loans from the Public Works Board, authorized by state statute, RCW 43.155 to loan money to repair, replace, or create domestic water systems, sanitary sewer systems, storm sewer systems, roads, streets, solid waste and recycling facilities and bridges.
 - b. The Local Option Capital Asset Lending (LOCAL) Program is a financing contract with the Office of the State Treasurer under RCW 39.94. It is an expanded version of the state agency lease/purchase program that allows pooling funding needs into larger offerings of securities. This program allows local government agencies the ability to finance equipment needs through the State Treasurer's Office, subject to existing debt limitations and financial consideration.
 - c. Other state funded programs.
8. Alternative types of debt: No variable-rate debt or derivative products shall be utilized.

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DEBT STRUCTURING PRACTICES

1. Maximum term, Payback Period and Average Maturity:
 - a. The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life with the average life of the bonds less than or equal to the average life of the assets being financed.
 - b. General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.
 - c. The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.
2. Debt Service Structure:
 - a. Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis.
3. Criteria for issuance of advance refunding and current refunding bonds:
 - a. The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt. A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding will not be pursued without a net present value savings after expenses of at least 3%.
4. Other Structuring Practices:
 - a. Bond amortization schedules will be structured to minimize interest expense with the constraints of revenue available for debt service. The bonds should include call features to maximize the City's ability to advance refund or retire the debt early. However, call features should be balanced with market conditions to ensure that the total cost of the financing is not adversely affected.

DEBT ISSUANCE PRACTICES

1. Council Approval: City Council approval is required prior to the issuance of debt.
2. Analytical Review: An analytical review shall be conducted prior to the issuance of debt including, but not limited to, monitoring of market opportunities and structuring and pricing of the debt.
3. Use of credit ratings, minimum bond ratings, determination of the number of ratings and selection of rating services: The City will continually strive to maintain its bond rating by improving financial policies, budget forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved. The City will maintain good communication with bond rating agencies about its financial condition,

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coordinating meetings and presentations in conjunction with a new issuance as necessary.

4. Compliance with Statutes and Regulations: The Finance Director, City Attorney, Bond Counsel and Municipal Advisor shall coordinate their activities and review all debt issuance to ensure that all securities are issued in compliance with legal and regulatory requirements by the State of Washington and the Federal Government's laws, rules and regulations.
5. Selection and use of professional service providers:
 - a. The City's Finance Department shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program.
 - b. Bond Counsel: All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt. The opinion shall include confirmation that the City has met all City and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt.
 - c. Municipal Advisor: A Municipal Advisor(s) may be used to assist in the issuance of the City's debt. The Municipal Advisor will provide the City with the objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring of market opportunities, structuring and pricing of debt and preparing official statements of disclosure.
 - d. Underwriters: An Underwriter(s) will be used for all debt issued in a negotiated, competitive or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.
 - e. Fiscal Agent: A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 43.80, the City will use the Fiscal Agent that is appointed by the State.
6. Criteria for determining sales method and investment of proceeds:
 - a. The Finance Director shall determine the method of sale best suited for each issuance of debt.
 - b. The City will generally issue its debt through a competitive process. For any competitive sale of debt, the City will award the issue to the Underwriter offering to buy the bonds at a price and interest rates that provide the lowest True Interest Cost (TIC).
 - c. The City will provide for the sale of debt by negotiating the terms and conditions of sale when necessary to minimize the cost and risks of borrowing under the following conditions:

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- i. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
 - ii. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
 - iii. The nature of the debt is unique and requires particular skills from the Underwriter(s) involved.
 - iv. The debt issued is bound by a compressed time line due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.
7. Bond insurance: For each issue, the City will evaluate the costs and benefits of bond insurance or other credit enhancements. Any credit enhancement purchases by the City shall be competitively procured.

DEBT MANAGEMENT PRACTICES

1. Investment of Bond Proceeds: The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds, including the City of Ridgefield Investment Policy.
2. Continuing Disclosure: The City shall provide annual disclosure information to established national information repositories and maintain compliance with disclosure statements as required by state and national regulatory bodies. Disclosure shall take the form of the Comprehensive Annual Financial Report (CAFR) unless information is required by a particular bond issue that is not necessarily contained within the CAFR.
3. Arbitrage Rebate Monitoring and Filing: The City will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond ordinance, contract or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, the City will follow a policy of full compliance with all arbitrage rebate requirements of the federal tax code and Internal Revenue Service regulations and will perform (internally or by contract consultants) arbitrage rebate calculations for each issue subject to rebate. All necessary rebates will be filed and paid when due in order to preserve the tax-exempt status of the outstanding debt.
4. Federal and State Law Compliance Practices: Discussed in Debt Issuance Practices sections 3 and 4 and Debt Management Practices sections 1 and 3.
5. Market and Investor Relations Efforts: The City shall endeavor to maintain a positive relationship with the investment community. The City shall communicate through its

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published Budget, Capital Improvement Program and Comprehensive Annual Financial Statements the City's indebtedness as well as its future financial plans.

6. Periodic Review: The City's debt policy shall be adopted by City Council. The policy shall be reviewed every two years by the Finance Department and modifications shall be submitted to and approved by City Council.